



July 11, 2011

Joint Staff Report - Regional Government Co-location Facility

The Bay Area Quality Management District (Air District), the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC) have completed the process for identifying a property to co-locate as a regional headquarters building, subject to board approval by the three agencies. After a review of competitive real estate options in the Oakland and San Francisco markets, financial and due diligence work, and real estate negotiations, staff has identified 390 Main Street in San Francisco as the only viable option that meets all of the major parameters established by the three agencies as described in this report.

The proposed terms and conditions for the acquisition and of respective interest in 390 Main Street will be discussed in Closed Session for consideration by the Air District (July 18th), ABAG (July 21st) and MTC (July 27th).

Strategic Plan Development Process

For the past two years, the Air District, ABAG and the MTC staffs have been working together on a strategy to co-locate into a regional government headquarters. The Air District began evaluating options to rehabilitate or replace their existing headquarters, which is 44 years old, requires a substantial investment for deferred maintenance cost, and lacks additional space for staff growth. In comparison, the MetroCenter building, which is 30 years old, has limited capacity for further growth and would require MTC to fragment its occupancy into multiple sites in order to accommodate that growth.

In July 2009, the Air District's Executive Committee directed staff to explore co-location option opportunities with MTC, ABAG and other public agencies. In September 2009, the MTC Administration Committee and the ABAG Finance and Personnel Committee authorized their respective staff to participate in the project.

Sharing a common goal and taking a regional approach, the three agencies commenced development of a joint facility strategy with the following objectives:

- Provide for greater building efficiencies,
- Lessen environmental impact through energy efficiency and sustainability,
- Reduce costs through interagency sharing of resources; and
- Improve inter-agency cooperation and initiatives through co-location.

As the lead agency, in June 2010 the Air District awarded a contract to CB Richard Ellis (CBRE) to provide real estate advisory services to the agencies. CBRE's work included an analysis of each agency's existing facilities, operational requirements, sustainability and environmental objectives, and financial objectives. At a meeting in October 2010, the results of their findings and recommendations were presented to a joint agency ad hoc committee, consisting of each agency's Chair, Vice-Chair and Executive Director. The committee referred the recommendation to each agency's governing board for action. In November/December 2010, each board authorized their staff to proceed with the next phase of selecting a broker to identify viable real estate options in both the Oakland and San Francisco markets. It was also agreed that MTC would be the lead agency for this next phase.

Real Estate Strategy and Negotiations

After a competitive procurement process, the MTC governing board authorized staff to negotiate and enter into a contract with CBRE for real estate brokerage services. On March 14, 2011, CBRE widely distributed a Request for Proposal (RFP) to owners, developers, brokerage firms and other interested parties to identify proposed properties in Oakland or San Francisco that met criteria from both an occupancy and financing perspective as described in Attachment A.

CBRE analyzed eleven (11) responses containing twelve (12) proposals, and presented their findings and recommendations in closed session to each agency's governing board for consideration. In May 2011, each agency governing board authorized their staff to proceed with real estate negotiations with five (5) short-listed properties. Further discussions and due diligence work has been completed with a determination that four (4) of the short-listed properties all suffered one or more "fatal flaws" that prevented their selection as the recommended location. The results of this due diligence are summarized in Attachment B.

As a matter of due diligence, staff and CBRE team members met with the economic development teams from both cities to identify viable real estate options. Throughout the process, each agency received numerous letters of support and communications from the Mayors of Oakland and San Francisco and other interested parties. Finally, the Executive Directors met with Mayor Lee and Mayor Quan in separate meetings in June 2011 to discuss the real estate options in their respective cities.

Co-location Benefits

The co-location of the three regional agencies encourages further integration of regional planning efforts currently under the umbrella of One Bay Area. The San Francisco Bay Area Conservation and Development Commission – the fourth regional agency - has indicated interest in relocating into the building as a tenant once their existing lease expires.

This strategy also allows each agency to potentially achieve operational efficiencies through the sharing of resources and equipment (mail rooms, general services, shipping/receiving, telephone equipment, etc), and common space (board rooms and public meeting facilities, library, training center) and co-locating similar agency functions.

390 Main Street

390 Main Street in San Francisco helps the agencies achieve the goals established in the Strategic Facilities Planning Project by offering the opportunity for all three agencies to meet their missions of promoting well-located, energy efficient work places located near transit hubs. Other advantages of the property are:

- It offers the opportunity for the re-use of an existing, well-built building and includes adequate space for both agency and commercial tenants.
- It is available immediately for purchase at an affordable price.
- It is located in the center of a transit community and adjacent to the temporary Transbay Terminal, increasing transit options for employees, board members and the visiting public. It is also situated convenient to freeway access.
- It is situated near retail, dining, and a multitude of entertainment, sports and cultural amenities.
- It allows the agencies to reduce their carbon footprint in the aggregate through the sharing of resources and the use of more energy-efficient building systems.
- It promotes inter-agency collaboration through the adjacencies of all three agencies.

Especially for the employees of MTC and ABAG, one disadvantage to relocating to 390 Main Street is its distance to BART (within ½ mile) in comparison to the MetroCenter (on top of Lake Merritt Station). However, the commute analysis shows that even though 60% of the employees for the three regional agencies combined live in the East Bay, the 390 Main Street location will result in 60% of all employees having either the same or shorter commute time due to excellent transit access in downtown San Francisco. The Agencies commit to working with their respective employees to develop a commute plan to ensure an easier transition.

Attachments

Attachment A
Real Estate Property Criteria

The Request for Proposals issued by CBRE included the following criteria that each property proposal was required to meet:

A. Project Size

- The building must be 350,000 rentable sq. ft. or greater

B. Contiguous Availability

- There must be 150,000 – 200,000 usable sq. ft. of contiguous space available for near-term occupancy with the balance of the building available for development of long-term future government purposes

C. Occupancy Timelines

- The contiguous space should be available for occupancy within 24 months
 - Longer occupancy timelines may be considered

D. Location

- The property is located within the city of Oakland or San Francisco
- The property is located within ½ mile of BART and other major forms of mass public transit

E. Public Meeting Space

- The property must allow for Public Assembly
- The property must accommodate one or more boardrooms for public meetings (minimum 3,500 square feet) of up to 38 public officials

F. Code Compliance

- The property must meet or be able to meet current Seismic, ADA and other code compliance without extraordinary cost

G. LEED

- The property must have the ability to achieve LEED qualifications/certification

H. Purchase Option

- The preference is for an immediate purchase
 - Short-term leases with a fixed purchase option may be considered

Attachment B
Short-listed Property Due Diligence

1945 Broadway Street, Oakland, CA

1945 Broadway, owned by Sears Development, which currently houses a Sears retail operation on the bottom two floors. The developer proposed either a tear-down and new construction or a total rehabilitation project. After examination of the viability of the two project structures, it was discovered that as of today, the project has yet to complete either design drawings or environmental reviews. Due to this fact, it is estimated that neither structure could provide a reasonable expectation of completion within our desired timeframe.

1221 Broadway Street, Oakland CA

1221 Broadway currently houses The Clorox Company Headquarters. Clorox initially submitted a proposal indicating their interest in discussing a potential transfer in ownership due to the impending move of a portion of their staff out of Oakland. After further discussions, it was determined by Clorox that they could neither provide the amount of space required by the agencies' requirement nor enter into a purchase and sale agreement at this time.

1100 Broadway Street, Oakland, CA

1100 Broadway is a build-to-suit project offered by SKS that would incorporate the existing Key Systems Building into a brand new Class A tower. After detailed financial analysis, it was determined that the cost to construct the building may exceed the current market for 3rd party rents for some time. This would create an unacceptable cost structure for the agencies' occupancy.

875 Stevenson Street, San Francisco, CA

875 Stevenson, owned by the Shorenstein Company, is one of two buildings in an existing project formerly called Market Center in the Civic Center area of San Francisco. After more closely analyzing the agencies' space requirements and the available space in the building today and in the near future, it became apparent that there was not enough space for 3rd party leasing to subsidize the agencies' costs and maintain acceptable cost levels.